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UNCLAS SECTION 01 OF 14 DUBLIN 000060

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STATE FOR EB/IFD/OIA

E.O. 12958: N/A
TAGS: EINV EFIN USTR ECON KTDB OPIC EI
SUBJECT: INVESTMENT CLIMATE STATEMENT 2006 - IRELAND

REF: 05 STATE 202943

DUBLIN 00000060 001.2 OF 014

The following is keyed to reftel.

A1. OPENNESS TO FOREIGN INVESTMENT

IRISH GOVERNMENT'S ATTITUDE TOWARDS FOREIGN INVESTMENT

¶1. Over the past twenty years, the Irish Government has actively promoted foreign direct investment (FDI), a strategy that has underpinned unprecedented economic growth during this "Celtic Tiger" period. FDI flows into Ireland increased from an annual average of USD 140 million in the mid-1980s to USD 2.7 billion per year in the second half of the 1990s, yielding a total FDI stock of USD 213 billion by 2004. Traditionally, the principal goal of investment promotion has been employment creation, especially in technology-intensive and high-skill industries. In recent years, the Irish Government has also supported efforts by foreign-invested companies to sustain their international competitiveness through R&D enhancements and the marketing/sales of higher-value goods and services.

¶2. The Irish Government's actions have had considerable success in attracting U.S. foreign investment. According to the U.S. Department of Commerce, U.S. investment flow into Ireland in 2004 was USD 10.4 billion, roughly one-tenth the U.S. total for the EU. Ireland received USD 3.4 billion in U.S. manufacturing investment flow in 2004 and was the third most attractive market in the world for this category of U.S. investment behind the United Kingdom (USD 13.2 billion) and Canada (USD 5.5 billion). The stock of U.S. investment in Ireland in 2004 was valued at USD 73 billion, roughly five times the amount of U.S. investment stock in China (USD 15.4 billion). There are roughly 620 U.S. firms in Ireland, directly employing over 90,000 workers and supporting work for approximately 250,000, an eighth of the total labor force. U.S. firms operate primarily in the following sectors: chemicals; bio-pharmaceuticals and healthcare; computer hardware and software; electronics; and, financial services. In 2005, Ireland also emerged as a magnet for U.S. internet/digital media investment, with industry leaders Yahoo, Google, and Amazon making Dublin the hub of their respective European operations.

¶3. The American Chamber of Commerce reports that U.S. companies are attracted to Ireland as an export platform to the EU. In 2004, Irish-based U.S. firms exported roughly USD 55 billion worth of goods and services, mostly destined for the EU market. Other reasons for Ireland's attractiveness as

an FDI destination include: a 12.5 percent rate of corporate tax; the quality and flexibility of the English-speaking work force; cooperative labor relations; political stability; pro-business government policies; a transparent judicial system; and, the pulling power of existing companies operating successfully in Ireland (a "bandwagon" effect). Factors that negatively affect Ireland's ability to attract investment include: increasing costs of skilled and unskilled labor (especially when compared to low-cost countries such as China and India), inadequate infrastructure (particularly in the transportation, internet/broadband, and energy sectors), and absolute price levels that are ranked the highest in Europe.

¶4. Four state organizations promote inward investment into Ireland by foreign companies:

- The Industrial Development Authority of Ireland (IDA Ireland) has overall responsibility for promoting and facilitating foreign direct investment in all areas of the country, except the Shannon Free Zone. IDA Ireland is also responsible for attracting foreign companies to Dublin's International Financial Services Center (IFSC). IDA Ireland maintains offices in New York, Boston, Chicago, San Jose, and Atlanta, as well as in Europe and Asia;

- Enterprise Ireland promotes joint ventures and strategic alliances between indigenous and foreign companies;

- Shannon Free Airport Development Co. (SFADCO) handles investment in the Shannon Free Zone and is generally responsible for economic development in the Shannon region. The Irish Government is in the process of folding SFADCO's functions into IDA Ireland, which will require legislative action;

- Udaras na Gaeltachta has responsibility for economic

development in those areas of Ireland where Irish (Gaelic) is the predominant language, and works with IDA Ireland to promote overseas investment in these regions.

¶5. Major Laws/Rules/Taxation Policy

Ireland's judicial system is transparent and upholds the sanctity of contracts as well as laws affecting foreign investment. These laws include:

- The Industrial Development Act of 1993, which outlines the functions of IDA Ireland;

- The Mergers, Takeovers and Monopolies Control Act of 1978, which sets out rules governing mergers and takeovers by foreign and domestic companies;

- The Competition (Amendment) Act of 1996, which amends and extends the Competition Act of 1991 and the Mergers and Takeovers (Control) Acts of 1978 and 1987, and sets out the rules governing competitive behavior;

- The Companies Act of 1963, which contains the basic requirements for incorporation in Ireland (amended in 1990); and,

- The 2004 Finance Act, which introduced tax incentives to encourage firms to set up headquarters in Ireland and to conduct R&D.

In addition, there are numerous laws and regulations pertaining to employment, social security, environmental protection and taxation, with many of these determined at the EU level.

¶6. One of Ireland's most attractive features as an FDI destination is the low corporate tax rate. Since January 1,

2003, the corporate tax rate for both foreign and domestic firms has been 12.5 percent. Existing foreign firms will retain their entitlement to the "old" 10 percent rate until 2010 in the case of manufacturing and certain internationally traded services. Ireland's corporate tax rate is among the lowest in the EU, and the Irish Government continues to oppose proposals to harmonize taxes at a single EU rate. In 2004, U.S. firms in Ireland paid euro 2.7 billion in tax to the Irish Government.

¶7. All firms incorporated in Ireland are treated on an equal basis. With only a few exceptions, there are no constraints preventing foreign individuals or entities from ownership or participation in private firms/corporations. The most significant of these exceptions is that, as with other EU countries, Irish airlines must be at least 50 percent-owned by EU residents in order to have full access to the single European aviation market. There are also requirements related to the purchase of agricultural lands (see below).

¶8. While Ireland does not have a formal privatization program, there is likely to be at least partial privatization of some state-owned companies over the coming years. In 2005, for example, the Government announced its intention to privatize Aer Lingus, the state-owned national airline. There are no barriers to participation by foreign institutions in the sale of Irish state-owned companies. Residents of Ireland, however, may be given priority in share allocations to retail investors, as was the case with the state-owned telecommunications company, Eircom, privatized in ¶1998.

¶9. Citizens of countries other than Ireland and other EU member states can acquire land for private residential purposes and for industrial purposes. Under Section 45 of the Land Act, 1965, all non-EU nationals must obtain the written consent of the Land Commission before acquiring an interest in agricultural land, though there are many stud farms and racing facilities in Ireland that are owned by foreign nationals. There are no restrictions on the acquisition of urban land.

¶10. There is no formal screening process for foreign investment in Ireland, though investors looking to receive Government grants or assistance through one of the four state agencies responsible for promoting foreign investment in Ireland are often required to meet certain employment and investment criteria (see section "D" below). These screening mechanisms are transparent and do not impede investment, limit competition, or protect domestic interests. Potential investors are also required to examine the environmental

impact of the proposed project and to meet with Irish Environmental Protection Agency (EPA) officials.

A.2. Conversion and Transfer Policies

¶11. Ireland enjoys full current and capital account liberalization. There are no restrictions or reported significant delays in the conversion or repatriation of investment capital, earnings, interest, or royalties, nor are there any plans to change remittance policies. Likewise, there are no limitations on the import of capital into Ireland. Foreign exchange is easily obtainable at market rates. In 2004, the Irish Financial Services Regulatory Authority (IFSRA) reported that the Allied Irish Bank (AIB) had knowingly overcharged on foreign exchange transactions for several years. AIB repaid the overcharged amount and conducted an internal disciplinary process. The euro is Ireland's national currency.

A.3. Expropriation and Compensation

¶12. Private property is normally expropriated only for public purposes in a non-discriminatory manner and in accordance with established principles of international law. State condemnations of private property are carried out in accordance with recognized principles of due process. Where there are disputes between owners of private property subject to a government taking, the Irish courts provide a system of judicial review and appeal.

¶13. In 2005, the only reported case of expropriatory action involving the property/facilities of U.S. investors was that of the Lusitania, the ship that was sunk off Ireland's southern coast in 1915 by a German submarine and which is owned by a U.S. citizen. The U.S. owner has attempted for ten years to secure his right of access to the vessel and in 2001 brought action against the Government in the Irish courts after his applications for a license to dive to the vessel were denied. In 2005, a High Court ruling in the case noted that "the State simply cannot directly or indirectly expropriate this property from (the owner), or totally, or even substantially deny him access to or the use of his property or any part or parts of his property, even under color of merely regulating that access or use for the purpose of safeguarding a national asset, without paying appropriate compensation." The Irish Government has appealed the ruling, as the two sides continue to discuss a possible license for an exploratory dive.

A.4. Dispute Settlement

¶14. Ireland has no specific domestic laws governing investment disputes with foreign firms. There is, however, a legal arbitration framework available to parties that opt to arbitrate a dispute, including investment disputes, rather than litigate the case. Currently, there are no disputes involving investments by U.S. firms either in arbitration or litigation. In recent years, however, U.S. business representatives have occasionally called into question the transparency of government tenders, some of which have been won by U.S. companies. Some U.S. firms claim that lengthy budgetary decisions delay procurements and that unsuccessful bidders often have difficulty receiving information on the rationale behind the tender outcome. Successful bidders have experienced delays in finalizing contracts, commencing work on major projects, obtaining accurate project data, and receiving compensation for work completed, including through conciliation and arbitration processes. Successful bidders have also subsequently found that the original tenders do not accurately describe conditions on the ground.

¶15. The Irish legal system is based on common law, legislation and the constitution. The Companies Act 1963 (amended 1990) is the most important body of law dealing with commercial and bankruptcy law and is applied consistently by the courts. Irish bankruptcy laws give creditors a strong degree of protection. The Department of Enterprise, Trade and Employment is the state agency with primary responsibility for drafting and enforcing company law. The judiciary is independent, and litigants are entitled to trial by jury in commercial disputes. Ireland is a member of the International Center for the Settlement of Investment Disputes, and the Irish Government has been willing to agree

to binding international arbitration of investment disputes between foreign investors and the state. Ireland is also a party to the New York Convention of 1958 on the Recognition and Enforcement of Foreign Arbitral Awards. There is no specific domestic body for handling investment disputes.

A.5. Performance Requirements/Incentives

¶16. The Irish Government does not maintain any measures that it has notified the WTO to be inconsistent with Trade-Related Investment Measures (TRIMs) requirements. Moreover, there have been no allegations that the Government maintains measures that violate the WTO's TRIMs text.

¶17. Three Irish organizations, SFADCO, IDA Ireland, and Udaras, have regulatory authority for administering grant aid to investors for capital equipment, land, buildings, training, R&D, etc. Business enterprises in Ireland, including overseas companies, which seek grant aid from these organizations must submit investment proposals. Typically, these proposals include information on fixed assets (capital), labor, and technology/R&D components and establish targets using criteria such as sales, profitability, exports, and employment. This information is treated in confidence by the organizations, and each investment proposal is subject to an economic appraisal prior to approval for support. In 2004, IDA Ireland paid out euro 66 million in grants to foreign firms.

¶18. Performance requirements are generally based on employment creation targets established between the state investment agencies and foreign investors. Grant aid is paid out only after externally audited performance targets have been attained. Generally, parent companies must guarantee repayment of the government grant if the company closes before an agreed period of time elapses, normally ten years after the grant has been paid. Grant agreements generally have a term of five years after the date on which the last grant is paid. There are no requirements that foreign investors purchase from local sources or allow nationals to own shares.

¶19. As a result of "Agenda 2000" EU budgetary reforms, since 2000 Ireland has been treated as two regions for the purpose of EU structural funding and maximum "regional aid." Under the new rules, maximum grant aid assistance (40 percent of capital investment) is only available to companies locating in the 13 "Objective 1" border, midland and western (BMW) counties of Ireland, where infrastructure is less developed. Companies locating in the remaining 15 counties in the more prosperous south and east are entitled to restricted grant aid up to a maximum of 17.5 percent to 20 percent of their capital investment, depending on location. For the period 2004-2006, the following ceilings apply:

Transition Regions	Percent of Capital Investment
-- Southeast	20
-- Mid-West	20
-- Southwest	20
-- Mid-East	18
-- Dublin	17.5
Objective 1 Region	
-- Border, Midlands, West	40

The current Regional Aid Guidelines (RAGs) will cease to operate at the end of 2006, and the EU Commission is now developing new RAGs for the period 2007-2013. It is expected that these new rates will be lower than the current rates.

¶20. While investors are free, subject to planning considerations, to choose the location of their investment, IDA Ireland has since the late 1990s differentiated grant aid levels in favor of regions outside Dublin. This linkage is consistent with the National Spatial Strategy, which was adopted in 2001 with the aim of spreading investment more evenly around the country. One of the strategy's stated goals was to direct 50 percent of all new jobs related to greenfield investment to the border, midlands, and western

(BMW) counties of Ireland, where the economy is less

developed. In 1999, roughly 25 percent of jobs related to greenfield investment were located in the BMW region; by 2004, this figure had grown to 41 percent. In 2005, 46 of 71 new investment projects negotiated by the IDA were slated for areas outside Dublin. To encourage client firms to locate outside Dublin, IDA Ireland has developed "magnets of attraction," including: a Cross Border Business Park linking Letterkenny and Derry, a regional Data Center in Limerick, and the National Microelectronics Research Center in Cork.

¶21. There are no restrictions, de jure or de facto, on participation by foreign firms in government-financed and/or subsidized R&D programs on a national basis. In fact, the government encourages multinational companies to undertake more R&D in Ireland. Science Foundation Ireland (SFI), the state science agency, is responsible for administering a euro 365 million R&D fund under the 2000-2006 National Development Plan. The fund targets leading researchers in Ireland and overseas to promote within Ireland the development of biotechnology and information/communications technology, as well as complementary worker skills. Under the 2004 Finance Act, moreover, a credit of 20 percent of the incremental expenditure on revenue items, royalties, plant, and machinery related to R&D can be offset against a company's corporation tax liability in the year in which it is incurred. The 2006 Irish Government budget also allocates euro 300 million to a new Strategic Innovation Fund, that will encompass R&D links between industry and academia. In 2005, Microsoft, Lucent, Xilinx, Bristol-Meyers Squibb, Pfizer, and Genzyme, among other firms, launched investments in R&D projects and facilities.

¶22. Visa, residence, and work permit procedures for foreign investors are non-discriminatory and, for U.S. investors, generally liberal. There are no restrictions on the numbers and duration of employment of foreign managers brought in to supervise foreign investment projects, though their work permits must be renewed yearly. There are no discriminatory export policies or import policies affecting foreign investors.

A.6. Right to Private Ownership and Establishment
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¶23. The most common form of business organization in Ireland is the incorporated company, limited by shares, registered under the Companies Act, 1963, or previous legislation. Irish law does not prevent foreign corporations from carrying on business in Ireland. Any company incorporated abroad that establishes a branch must, however, file certain papers with the Registrar of Companies. A foreign corporation with a branch in Ireland will have the same standing in Irish law for purposes of contracts, etc., as a company incorporated in Ireland. Private businesses are not at a competitive disadvantage to public enterprises with respect to access to markets, credit, and other business operations.

¶24. Before 1999, Irish company law differed from international norms by allowing, for tax purposes, the registration of companies in Ireland that were not actually resident in Ireland (so-called Irish Registered Non-Resident companies (IRNRs)). In response to concern that a large number of the estimated 40,000 IRNRs were engaged in fraud, tax evasion, money laundering, and other illegal activities, the 1999 Finance Act equated registration in Ireland with tax residence and liability for all companies except in limited circumstances. Exceptions include cases where the Irish company, or a related parent company, is carrying on trade in Ireland, and the company is ultimately controlled either by residents of an EU member state or by residents of a country with which Ireland has a tax treaty (including the United States). Nonetheless, all Irish-based companies, including

U.S. firms, claiming non-residence in Ireland because of tax treaty provisions must identify the beneficial owners of the company.

¶25. Similarly, the "Companies (Amendment) (No. 2) Act 1999" requires that every application for company registration in Ireland show the manner in which the proposed company will carry out activities in Ireland. Section 43 of the legislation stipulates that a company must either have a director resident in the State or provide a bond of euro 25,400 in the event that the company commits an offense under the Companies Act or tax legislation. Section 44 states that these requirements may be waived when the Company obtains a certificate from the Companies Office stating that the company has a real and continuous link with one or more

economic activities in Ireland. Like the 1999 Finance Act, the Companies Act is designed to prevent the use of IRNRs for exclusively foreign activities without any connection to Ireland.

A.7. Protection of Property Rights

(I) Real Property

¶26. Secured interests in property, both chattel and real estate, are recognized and enforced. The Department of Justice administers a reliable system of recording such security interests through the Land Registry and Registry of Deeds. An efficient, non-discriminatory legal system is accessible to foreign investors to protect and facilitate acquisition and disposition of all property rights.

(II) Intellectual Property Rights

¶27. Ireland is a member of the World Intellectual Property Organization and a party to the International Convention for the Protection of Intellectual Property. In July 2000, Irish President McAleese signed legislation bringing Irish intellectual property rights (IPR) law into compliance with Ireland's obligations under the WTO Trade-Related Intellectual Property Treaty (TRIPs). The legislation came into force on January 1, 2001, and gives Ireland one of the most comprehensive legal frameworks for IPR protection in Europe.

¶28. This legislation addressed several TRIPs inconsistencies in previous Irish IPR law that had concerned foreign investors, including the absence of a rental right for sound recordings, the lack of an "anti-bootlegging" provision, and low criminal penalties that failed to deter piracy. The new legislation includes provisions for stronger penalties on both the civil and criminal sides.

¶29. As part of this comprehensive copyright legislation, changes were also made to revise the non-TRIPs conforming sections of Irish patent law. Specifically, the new IPR legislation addresses two concerns of many foreign investors in the previous legislation:

- the compulsory licensing provisions of the previous 1992 Patent Law were inconsistent with the "working" requirement prohibition of TRIPs Articles 27.1 and the general compulsory licensing provisions of Article 31; and,

- applications processed after December 20, 1991, did not conform to the non-discrimination requirement of TRIPs Article 27.1.

¶30. DVD and CD piracy, however, continues to be a problem. In 2004, the Irish police seized 130,000 pirated DVDs, valued at approximately euro 3 million, and 42,150 pirated CDs, valued at roughly euro 756,000. In a June 2005 raid, police

in County Meath confiscated 8,000 pirated DVDs and machinery that could produce 600 DVDs an hour. Industry representatives note that pirated DVDs make up at least 60 percent of the DVD rental market and that light penalties given to counterfeiters in DVD piracy court cases hamper police enforcement efforts. Moreover, industry sources estimate that up to 38 percent of PC software used in Ireland is pirated. The Business Software Alliance in Ireland estimates that reducing this rate by ten percentage points would help the USD 2.6 billion domestic IT industry to grow to USD 4 billion by 2009.

A.8. Transparency of the Regulatory System

¶31. The Irish Government generally employs a transparent and effective policy framework that fosters competition between private businesses in a non-discriminatory fashion. While ongoing Irish judicial "Tribunals" are investigating possible links between indigenous Irish companies' political donations in the late 1980s and favorable government decisions, U.S. businesses can, in general, expect to receive national treatment in their dealings with the Government. There is no report of any U.S. firm or investor having being required or forced to make payments during that period.

¶32. In recent years, independent bodies have taken over regulatory powers from Cabinet Departments in key economic

sectors. The Commission for Communications Regulation and the Commission for Energy Regulation are responsible for regulating the communications and energy sectors, respectively. Both are independent bodies with institutional links to the Department of Communications, the Marine and Natural Resources. The Commission for Aviation Regulation is an independent body that regulates the aviation sector. It is institutionally linked to the Department of Transport, which has direct regulatory powers over other segments of the transportation sector.

¶33. The Competition (Amendment) Act 1996 amends and extends the Competition Act 1991, strengthens the enforcement power of the Competition Authority, introduces criminal liability, increases corporate liability, and outlines available defenses. Most tax, labor, environment, health and safety, and other laws are compatible with European Union regulations, and they do not adversely affect investment. Proposed laws and regulations are published in draft form for public comment, including by foreign firms and their representative associations. Bureaucratic procedures are transparent and reasonably efficient, in line with a general pro-business climate espoused by the Government.

A.9. Efficient Capital Markets and Portfolio Investment

¶34. Capital markets and portfolio investments operate freely, and there is no discrimination between Irish and foreign firms. In some instances, development authorities and banks are able to facilitate loan packages to foreign firms with favorable credit terms. Credit is allocated on market terms, although the Irish Competition Authority found in 2004 that the banking sector's lack of competition limited the amount of credit available to small and medium-sized firms. Irish legal, regulatory, and accounting systems are transparent and consistent with international norms and provide a secure environment for portfolio investment. The Capital Gains Tax rate is 20 percent. The Irish banking system is sound. The estimated total assets of all licensed credit institutions as of December 2005 stood at euro 911.4 billion, with the Bank of Ireland and Allied Irish Banks holding a combined 25 percent of total assets. According to the Central Bank, non-performing loans comprised 0.76 percent of total assets. U.S. banks operating in Ireland include

Citibank and Chase Manhattan.

¶35. As of January 2006, total market capitalization in the Irish Stock Exchange (ISEQ) was euro 95.1 billion, roughly 59 percent of projected 2005 nominal GDP (euro 159.9 billion). In terms of market weight, the stocks of four companies are predominant: Allied Irish Bank, Bank of Ireland, CRH (a construction industry supplier), and Elan (a pharmaceuticals firm). The Irish stock market has recovered steadily since plummeting in 2002 following the global economic slowdown and well-publicized management problems at several major Irish companies. In 2005, the ISEQ Overall Index saw 20 percent growth and reached an all-time high by year's end, one of the strongest performances in the developed world. Economists attribute ISEQ's robust showing to Ireland's broad-based economic growth, the likely under-valuing of Irish stocks earlier in the decade, and improved prospects for the European economy. In 2005, ISEQ opened up a secondary market, the Irish Enterprise Exchange (IEX), which caters to smaller firms with a minimum market cap of euro 5 million.

¶36. In May 2003, the Central Bank of Ireland was reorganized into the Central Bank and Financial Services Authority of Ireland (CBFSAI), in accord with the Central Bank and Financial Services Authority of Ireland Act 2003. Under the legislation, the Governor of the CBFSAI has responsibility for the overall stability of the Irish financial system. The legislation also established the Irish Financial Services Regulatory Authority (IFSRA), which is an autonomous but constituent part of CBFSAI that regulates financial services institutions in Ireland and, from 2006, the Irish Stock Exchange. IFSRA took over this responsibility from a mix of government bodies, including: the Central Bank, the Department of Trade, Enterprise, and Employment (DETE), the Office of Director of Consumer Affairs, and Registrar of Friendly Societies. The legislation also enhanced the regulatory powers given to IFSRA, particularly in consumer protection.

¶37. With the advent of Economic and Monetary Union (EMU), the Central Bank is now a member of the European System of Central Banks (ESCB) whose primary objective is to maintain price stability in the euro area. Ireland no longer operates

an independent monetary policy. Rather, ESCB formulates and implements monetary policy for the euro area, and the Central Bank implements that policy at the national level. The Governor of the Central Bank is one of 18 members of the Governing Council for the ECB and has an equal say in the formulation of monetary and interest rate policy. The other main tasks of the Central Bank include: issuing euro currency in Ireland; acting as manager of the official external reserves of gold and foreign currency; conducting research and analysis on economic and financial matters; overseeing the domestic payment and settlement systems; and, managing investment assets on behalf of the State.

¶38. The Irish Takeover Panel Act 1997 governs company takeovers. Under the Act, the "Takeover Panel" issues guidelines, or "Takeover Rules," which aim to regulate commercial behaviour in the context of mergers and takeovers. According to minority squeeze-out provisions in the legislation, a bidder who holds 80 percent of the shares of the target company can compel the remaining minority shareholders to sell their shares. There are no reports that the legislation has been used to prevent foreign takeovers specifically, and, in fact, there have been several high-profile foreign takeovers of Irish companies in the banking and telecommunications sectors in recent years. The EU Directive on Takeovers provides a framework of common principles for cross-border takeover bids, creates a level playing field for shareholders, and establishes disclosure obligations throughout the EU. The Directive is to be implemented in Ireland in 2006, though many of its principles have already been enacted in the Irish Takeover Panel Act

¶1997.

¶A. 10. Political Violence

(I) Impact of Northern Ireland Instability

¶39. In the past, political instability and violence in Northern Ireland were thought to affect the Republic of Ireland. In reality, however, there has been little spillover of violence or instability, especially since the late 1970s and particularly after the cease-fires of 1994. The growth of business investment and confidence in Northern Ireland since the cessation of widespread violence has benefited the Republic of Ireland, with cross-border trade reaching nearly euro 2.5 billion in 2004. No violence related to the situation in Northern Ireland has been specifically directed at U.S. citizens or firms located in the South.

¶40. The 1998 ratification of the Good Friday Agreement by large majorities in both Ireland and Northern Ireland has further diminished the potential for violence. Since then, however, groups opposed to the peace process have continued to commit acts of criminality and terror in Northern Ireland and on mainland Britain. There have been no serious incidents in the Republic of Ireland. In mid-2005, the Irish Republican Army announced that it would no longer pursue its objectives through violent means. Independent observers subsequently confirmed the decommissioning of IRA weapons. Efforts in pursuit of a final peace agreement, including restoration of cross-community participation in local government, were set to continue into 2006.

(II) Other Acts of Political Violence

¶41. In 1997 and 1998, an Irish environmental group vandalized two separate Irish crop trial sites, involving agricultural biotechnology crops. The trials were conducted by the U.S. firm, Monsanto. Irish police investigated both incidents and criminal charges were filed in both cases. There have been no further incidents involving subsequent GMO plant trials in Ireland.

¶42. There have been no other recent incidents involving politically motivated damage to foreign investment projects and/or installations in the Republic of Ireland. In 2003, several Irish citizens opposed to the Iraq War damaged U.S. military assets at Shannon Airport. In 2004, one of these citizens was convicted in an Irish court and given a suspended sentence. The trial of the other citizens involved in these acts is pending for 2006. In late 2005, a group of opposition and independent Irish parliamentarians said publicly that they would not oppose further attacks on U.S. military aircraft transiting Ireland.

¶A. 11. a. Corruption

¶43. Corruption is not a serious problem for foreign investors in Ireland. The principal Irish legislation relating to anti-bribery and corruption includes the Public Bodies Corrupt Practices Act 1889, the Prevention of Corruption Act 1906, the Prevention of Corruption Act 1916, and the Prevention of Corruption (Amendment) Act 2001. This body of law makes it illegal for Irish public servants to accept bribes. The Ethics in Public Office Act 1995 provides for the written annual disclosure of interests of people holding public office or employment.

¶44. Ireland signed the UN Convention on Corruption in December 2003, and ratification is pending a review of the legal measures required for implementation. In January 2000,

the GOI introduced to Parliament the "Prevention of Corruption (Amendment) Act, 2001," to ratify and implement the OECD Convention on Bribery. The legislation, which enabled Ireland to ratify a number of conventions dealing with corruption drawn up by the European Union, the Council of Europe, and the OECD, came fully into force as law in November 2002. Ireland formally ratified the OECD Convention in September 2003. Ireland is also a member of the OECD Working Group on Bribery and the Group of States Against Corruption (GRECO). Under the Prevention of Corruption Act, the bribery of foreign officials is a criminal offense. Bribery of foreign officials may also invalidate a contract that a party is seeking to enforce in Ireland.

¶45. A number of ongoing judicial "Tribunals" are seeking to establish whether political donations by certain Irish companies in the late 1980s and early 1990s can be linked to favorable government decisions, mostly at the local level, in zoning and tax matters. There is also media and public concern that business interests may have compromised Irish politics in the late 1980s and early 1990s. Despite these reports of payments to political parties and figures in the 1980s and early 1990s, there remains no indication that foreign businesses or investors have had to make such payments or been approached to make such payments to conduct business during the period in question or in years since.

¶46. In late 2004, the Government launched an inquiry into allegations that a Cabinet Minister approved for his former Department a no-bid public relations contract worth euro 300,000 for a political associate. The inquiry exonerated the Minister in 2005. In late 2005, a junior Cabinet Minister resigned following press reports that a construction firm had worked on his house for free and that he had offered improper financial incentives to his office staff.

¶47. The Irish police investigate allegations of corruption. If sufficient evidence of criminal activity is found, the Director of Public Prosecutions prepares a file for prosecution. A small number of public officials have been convicted of corruption and/or bribery in the past, although it is not a common occurrence.

b. Bilateral Investment Agreements

¶48. Ireland's only bilateral investment protection agreement is with the Czech Republic. In addition, Ireland has bilateral tax treaties with the following countries: Australia, Austria, Belgium, Bulgaria, Canada, China, Croatia, Cyprus, the Czech Republic, Denmark, Estonia, Finland, France, Germany, Hungary, India, Italy, Israel, Japan, Korea (Rep. of), Latvia, Lithuania, Luxembourg, Malaysia, Mexico, Netherlands, New Zealand, Norway, Pakistan, Poland, Portugal, Romania, Russia, Slovak Republic, Slovenia, South Africa, Spain, Sweden, Switzerland, UK, the United States, and Zambia. Treaties with Greece and Iceland were signed in November and December 2003, respectively, and became effective for the 2005 tax period. A treaty replacing the existing treaty with Canada was signed in October 2003. Parliamentary procedures to bring the treaty into force were completed by Ireland in December 2004 and by Canada in April 2005, and the treaty will become effective for the 2006 tax period. A new agreement with Chile was signed in June 2005. The agreement will likely enter into force in 2006, subject to completion of the necessary parliamentary procedures by Ireland and Chile. A protocol amending Ireland's agreement with Portugal was signed in November 2005 and will also likely enter into force in 2006, pending parliamentary procedures in both countries. New treaties with Argentina, Egypt, Kuwait, Malta, Morocco, Singapore, Tunisia, Turkey and

Ukraine are being negotiated. Existing treaties with Cyprus, France and Italy are in the process of re-negotiation. These agreements serve to promote trade and investment between

Ireland and the partner countries that would otherwise be discouraged by the possibility of double taxation.

c. OPIC and Other Investment Insurance Programs

¶49. Since 1986 the U.S. Overseas Private Investment Corporation (OPIC) has been authorized to operate in Ireland as part of the U.S. effort to support the process of peace and reconciliation in Northern Ireland. There is some potential in Ireland for OPIC's credit guarantee programs. No other countries have an investment insurance program in Ireland. Ireland is a member of the Multilateral Investment Guarantee Agency (MIGA).

¶50. The estimated annual U.S. dollar value of local currency likely to be used by the U.S. Embassy in Ireland during 2006 is approximately USD 12.4 million. The Embassy purchases local currency through centralized bulk purchasing arrangements at a competitive market rate. Prospects for eurozone economic growth and for the U.S. trade and budget deficit positions will likely determine USD and euro currency movements through 2006.

d. Labor

¶51. In 2005, employment levels in Ireland reached historical highs, the result of continued strong economic growth. As of the third quarter of 2005, the number of people employed was 1.9 million, an increase of roughly 96,000, or 5.0 percent, compared to the third quarter of 2004. Since 1994, employment growth has averaged roughly 4.0 percent, with lower rates recorded in 2002 and 2003 following the post 9-11 global economic slowdown. Comparing the third quarters of 2004 and 2005, the largest increase in employment was in the vibrant (housing) construction sector, which added 30,400 jobs. There was also a gain of 20,200 jobs in business and financial services during the year. Employment in production industries, including manufacturing, fell by 11,000, however, continuing a trend from 2004.

¶52. In contrast to 15.6 percent unemployment in 1993, Ireland registered 4.2 percent unemployment in the second quarter of 2005. This was the lowest unemployment rate among EU Member States and slightly less than half the eurozone average. The number of unemployed people in the third quarter of 205 was 96,700, representing an increase of 2,800 compared to the third quarter of 2004. Local economists believe that the Irish economy is as close to full employment as possible, with employers reporting difficulties in recruiting workers. Whereas Ireland's primary policy goal was once job creation, the focus of government strategy has shifted to upgrading skills and increasing the number of workers in technology-intensive, high-value sectors.

¶53. Irish labor force regulation is less restrictive compared with most continental EU countries. The Irish workforce is characterized by a high degree of flexibility, mobility, and education. There is a relative gender balance in the workforce, with 1.2 million males and 882,000 females currently employed. This gender balance reflects a change in social mores that has facilitated a surge in female employment since the mid-1980s

¶54. With the tightening of the labor market, wages remain on an upward growth curve. As of the third quarter of 2005, average annual earnings per worker were euro 35,506, a 3.5 percent increase over the third quarter of 2004. Between 1998 and 2003, compensation per employee increased by 37.1 percent, compared with 8.7 percent in Germany over the same period. The minimum wage was euro 5.20 when it was first introduced in 2000 and rose to euro 7.65 in 2005. Employees earning the minimum wage will not have to pay personal income tax in 2006.

¶55. Unprecedented immigration levels, particularly from Eastern Europe, have added a new dynamic to the Irish labor

market. Of the 96,000 new workers added to the labor force between the third quarters of 2004 and 2005, roughly 40,000 were immigrants, working mostly in the construction and lower-end services sectors. According to some sources, the number of people taking up residence in Ireland since the accession of new EU Member States in 2004 may be as high as 100,000. Irish labor unions have expressed concern over

immigration trends and the possibility of displacement of Irish workers. In late 2005, a labor dispute over plans by a ferry company to replace Irish workers with Eastern European migrants at lower wages prompted large-scale, peaceful demonstrations nationwide in support of protective mechanisms for both Irish and migrant laborers. Economists point out, however, that yearly job creation in Ireland is currently sufficient to accommodate both Irish workers and immigrants. Economists also hold that that Ireland will require 50,000 immigrants a year over the short term to sustain high rates of economic growth.

¶56. The Irish system of industrial relations is a voluntary one. Pay levels and conditions of employment are generally agreed through collective bargaining between employers and employees. Since 1987, collective bargaining has taken place under the framework of a series of national economic programs, negotiated by representatives of employers, trade unions, farmers, and the government. This consensual "Social Partnership" approach has been accompanied by a marked improvement in the industrial relations climate since the mid-1980s. Working days lost as a result of industrial disputes amounted to 37,482 in 2003 and 20,784 in 2004 (a fraction of the total days lost through industrial action in the 1980s and early 1990s).

¶57. The latest national economic program, "Sustaining Progress", was agreed under the Social Partnership framework in February 2003 and approved by Ireland's major unions in August 2004. The 18-month agreement exchanges a 7 percent wage increase for industrial relations stability. While the package will cost the GOI - Ireland's largest employer - an estimated euro 2.5 billion, private industries unable to pay the full 7 percent due to competitive pressures will be permitted to pay lesser increases or none at all. As part of the package, the GOI committed to provide an increased supply of "affordable housing" and to amend legislation and statutory codes to strengthen the procedures by which unions can represent their members' interests. In addition, the GOI enhanced statutory redundancy terms to provide released employees with two weeks' compensation for each year of service. Negotiations on a successor program to "Sustaining Progress" were set to begin in early 2006.

¶58. Trade union demands for mandatory trade union recognition in the workplace are strongly resisted by employers. While the Irish constitution guarantees the right of citizens to form associations and unions, Irish law also affirms the right of employers not to recognize unions and to deal with employees on an individual basis. Currently, roughly 33 percent of workers in the private sector are unionized, compared to 95 percent in the public sector. Among foreign-owned firms, roughly 80 percent of workers do not belong to unions. Employers also strongly oppose trade union demands for greater "partnership" between employees and employers at the enterprise level, including worker participation in managerial decisions through German-style "work councils." Some progress has been made, however, with regard to increased profit-sharing.

e. Foreign Trade Zones/Free Ports

¶59. The Shannon duty-free Processing Zone (SDFPZ) was established by legislation in 1957. Under the legislation, eligible companies operating in the Shannon Free Zone are entitled to the following benefits: goods imported from

non-EU countries for storage, handling or processing are duty free; no duty on goods exported from Shannon to non-EU countries; no time limit on disposal of goods held duty-free; minimum customs documentation and formalities; no Value Added Tax (VAT) on imported goods, including capital equipment; choice of having import duty on non-EU product calculated on its landing value or selling-out price. Qualifying criteria for eligible companies include employment creation and export-orientation. Foreign-owned firms in the Shannon Free Zone have the same investment opportunities as indigenous Irish companies. As of 2005, there were 110 internationally traded manufacturing and service companies established in the Shannon Free Zone, employing roughly 7,500 workers and generating about euro 2.5 billion in exports annually. U.S. companies, which make up 57 percent of the firms operating out of Shannon, include GE Capital, Bristol Myers Squibb, DHL, UPS, Pfizer, Intel, Symantec, and Cabletron. The Shannon Free Zone is technically an asset of SFADCO, although the Government is currently reviewing a proposal to place the zone under the authority of Shannon Airport as a means of airport funding.

¶60. Duty free exemptions are available also to companies operating in Ireland's major deep-water port at Ringaskiddy in County Cork, although these have been used infrequently in recent years.

f. Foreign Direct Investment Statistics

¶61. According to Ireland's Central Statistical Office (CSO), the stock of FDI in Ireland for end-year 2004 stood at euro 171.8 billion, or 117 percent of nominal 2004 GDP and a 2.7 percent drop from 2003. Ireland received FDI flows worth euro 8.98 billion in 2004, or 6 percent of nominal 2004 GDP and a 55 percent decline from 2003. (Note: Different FDI calculation methods likely explain discrepancies with U.S. Department of Commerce statistics, which show U.S. FDI flows alone to Ireland as USD 10.4 billion in 2004, roughly the same amount as total FDI flows according to Irish statistics. Further discrepancies are noted in the tables below.)

¶62. In 2004, the 1,022 companies supported by IDA Ireland, including 478 U.S. firms, spent euro 15.5 billion in the Irish economy from their annual sales of euro 75 billion (exports of euro 71 billion) and paid over euro 2.5 billion in corporate tax. During 2005, IDA negotiated 71 new business projects with new and existing clients, which involved a total investment commitment of over euro 745 million over the coming years. IDA also supported 50 R&D investment projects involving a total investment by business in excess of euro 260 million, an 85 percent increase in value over 2004.

¶63. According to the American Chamber of Commerce, U.S. firms announced 34 investment projects in 2005, creating 3,400 new jobs. Of these projects, roughly a third were new investments, such as by Yahoo and Amazon, and two-thirds were expansion programs, such as by established companies Intel, Dell, Bisys, PFPC, and International Fund Service. Roughly 90 percent of FDI projects that came to Ireland in 2005 were of U.S. origin. New investments were evenly split between the east coast, inclusive of Dublin, and the remainder of the country, with the largest regional clusters in Cork, Galway, and the Southeast. The U.S. Department of Commerce estimates that U.S. companies' average return on investment (ROI) in Ireland is 24 percent.

Table 7.1: Stock of U.S. Investment in Ireland
(Millions of dollars; historical cost basis)

	2002	2003	2004

All Industries	46,617	55,463	73,153
Manufacturing	13,427	15,002	21,290
Food	157	193	241
Chemicals	6,207	6,089	10,019
Metal	22	33	51
Industrial machinery	23	24	26
Computers/Electronic	3,241	3,992	5,571
Transportation Equipment	unavailable	unavailable	285
Wholesale trade	2,680	2,998	4,598
Information	10,362	14,048	17,029
Finance/Insurance	7,520	8,681	11,101
Depositary Institutions	145	445	unavailable
Prof. Services	1,459	1,655	1,968

Source: U.S. Department of Commerce, Survey of Current Business

Table 7.2: Investment Flows into Ireland by Country Origin, 2004
(in euro millions)

Total	8,987

UK	-2,373
Belgium/Luxembourg	5,581
France	846
Germany	921
Italy	271
Netherlands	5,710
Canada	-271
United States	3,996
Japan	1,392

Source: Ireland Central Statistical Office (CSO) website

(Note: According to the U.S. Department of Commerce, U.S. investment flow into Ireland in 2004 was USD 10.4 billion. Also, investment by U.S. companies in Ireland is often effected through intermediary subsidiaries located outside the United States. According to the CSO, a sizeable proportion of the Dutch investment cited above originated in the United States.)

Table 7.3: Investment Stock in Ireland by Country Origin, 2004
(in euro millions)

Total	171,766
UK	24,706
Belgium/Luxembourg	27,071

France	3,224
Germany	2,484
Italy	4,854
Netherlands	56,069
Canada	5,987
United States	25,825

Source: Ireland Central Statistical Office (CSO) website

(Note: According to the U.S. Department of Commerce, the stock of U.S. investment in Ireland in 2004 was USD 73.2 billion.)

Table 7.4: Total Employment by Sector in IDA-Supported Companies

	2002	2003	2004
Information/Communications Technologies	43,499	41,362	41,887
Pharmaceuticals/Healthcare	19,016	19,326	19,985
Engineering	16,536	15,372	13,989
Miscellaneous Industry	10,047	9,282	8,243
International and Financial Services	43,281	43,407	44,842
Total	132,379	128,749	128,946

Source: IDA Ireland Annual Report, 2004

Table 7.5: Origins of IDA-Supported Companies, End-2004

Country	Number of Firms	Employment
United States	478	90,236
United Kingdom	116	6,824
Germany	140	11,158
Rest of Europe	209	16,163
Asia/Pacific	46	3,002
Rest of World	33	1,563
Total	1,022	128,946

Source: IDA Ireland Annual Report, 2004

Table 7.6: Major U.S. Investments in Ireland

Company	Location

Apple Computers	Cork
AIG Europe	Dublin
Bausch & Lomb	Waterford
Berlitz	Dublin
Bisys	Waterford
Boston Scientific	Galway, Cork, Wexford
HP-Compaq Computers	Galway, Dublin
Citibank	Dublin
Dell Computers	Limerick, Dublin
Eastman Kodak	Limerick, Cork
Fidelity	Dublin
Gartner Group	Limerick
Hertz	Dublin
Hewlett-Packard	Leixlip, Kildare
IBM Ireland	Dublin
Intel Ireland	Dublin, Leixlip
Johnson & Johnson	Dublin
Millipore Ireland BV	Cork
Motorola	Cork
Netscape Communications	Dublin
Novartis	Cork
PFPC	Navan, Wexford
Prudential Insurance of America	Letterkenny
3Com	Dublin
United Airlines	Dublin
US Robotics	Dublin
Woodchester Investments	Dublin
Wyeth Biopharma	Dublin

Source: IDA Ireland Annual Report, 2004
KENNY